

MANNATECH INC
Form 10-Q
November 07, 2008
September 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: September 30, 2008

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission File No. 000-24657

MANNATECH, INCORPORATED

(Exact Name of Registrant as Specified in its Charter)

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Texas

(State or other Jurisdiction of
Incorporation or Organization)

75-2508900

(I.R.S. Employer
Identification No.)

600 S. Royal Lane, Suite 200

Coppell, Texas 75019

(Address of Principal Executive Offices, including Zip Code)

Registrant's Telephone Number, including Area Code: **(972) 471-7400**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of October 31, 2008, the number of shares outstanding of the registrant's sole class of common stock, par value \$0.0001 per share, was 26,460,788.

Mannatech, Incorporated

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Special Note Regarding Forward-Looking Statements

Certain disclosures and analysis in this Form 10-Q, including information incorporated by reference, may include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and the Private Securities Litigation Reform Act of 1995 that are subject to various risks and uncertainties. Opinions, forecasts, projections, guidance, or other statements other than statements of historical fact are considered forward-looking statements and reflect only current views about future events and financial performance. Some of these forward-looking statements include statements regarding:

- § management's plans and objectives for future operations;
- § existing cash flows being adequate to fund future operational needs;
- § future plans related to budgets, future capital requirements, market share growth, and anticipated capital projects and obligations;
- § the realization of net deferred tax assets;
- § the ability to curtail operating expenditures;
- § global statutory tax rates remaining unchanged;
- § the impact of future market changes due to exposure to foreign currency translations;
- § the possibility of certain policies, procedures, and internal processes minimizing exposure to market risk;
- § the impact of new accounting pronouncements on financial condition, results of operations, or cash flows;
- § the outcome of new or existing litigation matters;
- § the outcome of new or existing regulatory inquiries or investigations; and
- § other assumptions described in this report underlying such forward-looking statements.

Although we believe that the expectations included in these forward-looking statements are reasonable, these forward-looking statements are subject to certain events, risks, assumptions, and uncertainties, including those discussed below and in the "Risk Factors" section in Item 1A of this

Form 10-Q, and elsewhere in this Form 10-Q and the documents incorporated by reference herein. If one or more of these risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results and developments could materially differ from those expressed in or implied by such forward-looking statements. For example, any of the following factors could cause actual results to vary materially from our projections:

- § overall expected growth in the nutritional supplements industry;
- § plans for expected future product development;
- § changes in manufacturing costs;
- § shifts in the mix of packs and products;
- § the future impact of any changes to global associate career and compensation plans or incentives;
- § the ability to attract and retain independent associates and members;
- § new regulatory changes that could affect operations or products;
- § any impact of competition, competitive products, and pricing;
- § any impact related to media or publicity; and
- § the political, social, and economic climate.

Forward-looking statements generally can be identified by use of phrases or terminology such as "may," "will," "should," "could," "would," "expects," "plans," "intends," "anticipates," "believes," "estimates," "approximates," "predicts," "projects," "potential," and "continues" or other similar words or the negative of such terms and other comparable terminology. Similarly, descriptions of our objectives, strategies, plans, goals, or targets contained herein are also considered forward-looking statements. Readers are cautioned when considering these forward-looking statements to keep in mind these risks, assumptions, and uncertainties and any other cautionary statements in this report, as all of the forward-looking statements contained herein speak only as of the date of this report.

Unless stated otherwise, all financial information throughout this report and in the Consolidated Financial Statements and related Notes include Mannatech, Incorporated and all of its subsidiaries on a consolidated basis and may be referred to herein as "Mannatech," "the Company," "its," "we," "our," or "us."

Our products are not intended to diagnose, cure, treat, or prevent any disease and any statements about our products contained in this report have not been evaluated by the Food and Drug Administration, also referred to herein as the FDA.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

MANNATECH, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	September 30, 2008	December 31, 2007
ASSETS		
Cash and cash equivalents	\$34,982	\$47,103
Restricted cash	468	340
Accounts receivable, net of allowance of \$61 and \$877 in 2008 and 2007, respectively	293	618
Income tax receivable	5,729	2,136
Inventories, net	28,956	23,706
Prepaid expenses and other current assets	3,549	6,053
Deferred income tax assets	5,593	1,789
Total current assets	79,570	81,745
Long-term investments	—	12,950
Property and equipment, net	38,118	42,818
Construction in progress	856	1,594
Long-term restricted cash	7,846	11,726
Other assets	1,408	1,470
Long-term deferred income tax assets	183	151
Total assets	\$ 127,981	\$ 152,454
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current portion of capital leases	\$ 114	\$ 110
Accounts payable	2,982	3,637
Accrued expenses	34,086	30,315
Commissions and incentives payable	9,202	11,139
Taxes payable	374	6,198
Deferred revenue	3,842	4,769
Total current liabilities	50,600	56,168
Capital leases, excluding current portion	175	261
Long-term royalty liability	2,124	2,440
Long-term deferred income tax liabilities	5,830	5,165
Other long-term liabilities	1,365	1,565
Total liabilities	60,094	65,599
Commitments and contingencies	—	—
Shareholders' equity:		
Preferred stock, \$0.01 par value, 1,000,000 shares authorized, no shares issued or outstanding	—	—

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Common stock, \$0.0001 par value, 99,000,000 shares authorized, 27,667,882 shares issued and 26,460,788 shares outstanding in 2008 and 2007	3	3
Additional paid-in capital	40,743	40,146
Retained earnings	44,079	62,620
Accumulated other comprehensive loss	(2,147)	(1,123)
	82,678	101,646
Less treasury stock, at cost, 1,207,094 shares in 2008 and 2007	(14,791)	(14,791)
Total shareholders' equity	67,887	86,855
Total liabilities and shareholders' equity	\$ 127,981	\$ 152,454

See accompanying notes to unaudited consolidated financial statements.

MANNATECH, INCORPORATED AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF OPERATIONS *-(UNAUDITED)****(in thousands, except per share information)*

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Net sales	\$77,991	\$96,911	\$256,223	\$313,453
Cost of sales	11,105	14,868	37,014	45,564
Commissions and incentives	32,396	43,230	116,256	142,456
	43,501	58,098	153,270	188,020
Gross profit	34,490	38,813	102,953	125,433
Operating expenses				
Selling and administrative	18,753	21,342	63,349	63,331
Depreciation and amortization	3,172	2,953	9,225	7,283
Other operating	11,493	12,796	49,530	41,432
Total operating expenses	33,418	37,091	122,104	112,046
Income (loss) from operations	1,072	1,722	(19,151)	13,387
Interest income	266	614	1,219	1,902
Other income (expense), net	(2,047)	(194)	(2,450)	(91)
Income (loss) before income taxes	(709)	2,142	(20,382)	15,198
(Provision) benefit for income taxes	280	(396)	7,134	(5,036)
Net income (loss)	\$(429)	\$1,746	\$(13,248)	\$10,162
Earnings (loss) per share:				
Basic	\$(0.02)	\$0.07	\$(0.50)	\$0.38
Diluted	\$(0.02)	\$0.07	\$(0.50)	\$0.38
Weighted-average common shares outstanding:				
Basic	26,461	26,460	26,461	26,437
Diluted	26,461	26,843	26,461	26,940

See accompanying notes to unaudited consolidated financial statements.

MANNATECH, INCORPORATED AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY****AND COMPREHENSIVE INCOME (LOSS) (UNAUDITED)***(in thousands, except per share information)*

	Common Stock			Accumulated		Treasury stock		Total
	Outstanding	Par	Additional	Retained	other	Shares	Amounts	shareholders'
	Shares	value	paid in	earnings	comprehensive			equity
Balance at December 31, 2007	26,461	\$ 3	\$ 40,146	\$ 62,620	\$ (1,123)) 1,207	\$(14,791)	\$ 86,855
Charge related to stock-based compensation	—	—	597	—	—	—	—	597
Declared dividends of \$0.20 per common share	—	—	—	(5,293)	—	—	—	(5,293)
<i>Components of comprehensive loss:</i>								
Foreign currency translations	—	—	—	—	(1,024)	—	—	(1,024)
Net loss	—	—	—	(13,248)	—	—	—	(13,248)
Total comprehensive loss								(14,272)
Balance at September 30, 2008	26,461	\$ 3	\$ 40,743	\$ 44,079	\$ (2,147)) 1,207	\$(14,791)	\$ 67,887

See accompanying notes to unaudited consolidated financial statements.

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MANNATECH, INCORPORATED ALL SUBSIDIARIES**CONSOLIDATED STATEMENTS OF CASH FLOWS *-(UNAUDITED)****(in thousands)*

	Nine months ended	
	September 30,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (13,248)	\$ 10,162
<i>Adjustments to reconcile net income (loss) to net cash provided by operating activities:</i>		
Depreciation and amortization	9,225	7,283
Provision for doubtful accounts	34	400
Provision for inventory losses	1,142	430
Loss on disposal of assets	468	1
Accounting charge related to stock-based compensation	597	689
Deferred income taxes	(3,150)	746
<i>Changes in operating assets and liabilities:</i>		
Accounts receivable	298	(24)
Income tax receivable	(3,593)	1,218
Inventories	(6,890)	(1,864)
Prepaid expenses and other current assets	2,410	(2,565)
Other assets	(39)	6
Accounts payable	(630)	(564)
Accrued expenses and taxes payable	(1,999)	(5,264)
Commissions and incentives payable	(1,721)	(4,470)
Deferred revenue	(906)	818
Net cash provided by (used in) operating activities	\$ (18,002)	\$ 7,002
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(4,452)	(10,954)
Sale of investments	20,350	—
Purchase of investments	(7,400)	—
Change in restricted cash	1,610	(2,669)
Net cash provided by (used in) investing activities	\$ 10,108	\$ (13,623)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Tax benefit from exercise of stock options	—	99
Payment of cash dividends	(5,293)	(4,759)
Proceeds from stock options exercised	—	157
Repayment of capital lease obligations	(82)	(79)
Net cash used in financing activities	\$ (5,375)	\$ (4,582)
Effect of exchange rate changes on cash and cash equivalents	1,148	327
Net decrease in cash and cash equivalents	\$ (12,121)	\$ (10,876)
Cash and cash equivalents at the beginning of period	47,103	45,701
Cash and cash equivalents at the end of period	\$ 34,982	\$ 34,825
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Income taxes paid	\$ 2,546	\$ 4,139